

## **Kentucky Agricultural Finance Corporation**

### **Minutes of the May KAFC Meeting**

The meeting of the Kentucky Agricultural Finance Corporation was held on May 6, 2005 at 10:00 AM EDT at the Capitol Annex in Frankfort, Kentucky. Mark Farrow, designee called the meeting to order. Mr. Farrow then asked Lucinda T. Pease, the Secretary to call the roll.

**Members Present** – Wayne Hunt, Billy Hurd, Doug Lawson, Charles Miller, Sandy Ross, Mark Farrow, Commissioner Farmer-designee, Annette Crawford Walters

**Members Absent** – Jane Jones, Secretary Robbie Rudolph, Dr. Harold Benson, Billy Joe Miles, Bob Proffit

#### **Others Present**

**Staff** - Tim D. Hughes; Lucinda T. Pease; David Bratcher; Keith Rogers; Catherine Ball, Bill Hearn

**Guests**-Lowell Atchley-LRC, Kathi Marshall-OSBD, Anna Kendrick-KDA, Larry Snell KCCD

#### **Notification of Media**

Keith Rogers verified that the media had been notified.

#### **Approval of Minutes**

A Motion to approve the minutes was made by Billy Hurd and seconded by Wayne Hunt. The motion passed without dissent.

#### **Executive Directors Report**

Keith Rogers presented the executive directors report beginning with a Phase II update. The North Carolina Supreme Court hearing is May 16<sup>th</sup>. Administration is working to get the Phase II payments that were approved in the state's budget out to producers as quickly as possible.

A bond will be sold in next fiscal year, which begins July 1, to replace the \$17 million due the KAFC. The Finance Cabinet could possibly help if there is a need for money before that date.

The KADB meets on May 20. The major issue for that meeting is a proposal for a tobacco infrastructure model program from Christian County. The focus for the past several months has been to invest in commodities and traditional agriculture.

The next KAFC meeting is scheduled for June 3.

Tim Hughes updated the board on the current activity of KAFC. He informed the board that he has been attending FSA lender meetings and other informative meetings as an avenue to promote the programs.

## **Old Business**

Mr. Hughes presented an update on the Alltech loan

A financial manager with Alltech asked about modifying their project, which was approved for a KAFC loan. They decided to close immediately and requested that we accept the modifications. They want to change the project and indicate that they will still be utilizing agriculture commodities, but have not provided any details. The concern that needs to be addressed is whether a firm explanation of the change is required.

Mr. Hurd asked if they are asking for more money

Mr. Hughes stated no.

Mr. Lawson asked if they are using this loan to purchase the building.

Mr. Hughes responded that yes they are.

Mr. Rogers explained that within the two areas that the KAFC board established, this falls within the guidelines of the Agricultural Processing Investment Fund.

Mr. Hurd asked whether Mr. Hughes had been contacted regarding these changes.

Mr. Hughes responded no.

Mr. Bratcher commented that it is the nature of the company for last minute changes, but this should be a secure loan

Ms. Walters stated that one of the things we could do is state that they can't move the project to another location.

Mr. Lawson asked about the focus of Alltech.

Mr. Rogers responded that they would be buying their products from other processors, not directly from farmers. They supply micronutrients and other feed additives to feed companies and large livestock operations.

Mr. Lawson asked if the other groups involved in the \$17 million investment had changed their views.

Mr. Hughes responded that it is probably not a concern of people in Washington County and they like the idea of jobs in the area.

Mr. Hurd stated that the biggest concern is that this building may be resold.

Mr. Hughes responded that one option is to establish a baseline of the past three year's sales and require them to buy above that level. We would give them six months to a year to correct any delinquency.

Ms. Walters added that they need some flexibility in case they get started and need room for changes.

Mr. Rogers responded that based on what we currently know, if papers had been signed and we closed yesterday they would be in default. We need direction from the board for the loan committee to work with staff and determine a solution.

Mr. Miller commented that he knows that Alltech is not a feed manufacturer, but a feed ingredient manufacturer. He is uncomfortable as a member of this board not knowing the full scope of the project. There should be room for change over time, but we need to know what they will do in the plant.

Mr. Bratcher asked if they are coming forward with what they are going to do with the building.

Mr. Hughes said they are going to use the building for a similar type of production and will need agriculture commodities.

Mr. Bratcher added that we should write the guidelines to allow going back in twelve months to review.

Ms. Walters added that she likes the idea of tying into current production to see improvement.

Mr. Hughes commented that all they had projected buying was \$1 million of wheat bran per year. The project is an opportunity to assist a KY based company while partnering with KEDC and offering job opportunities to Kentucky displaced tobacco farmers.

Mr. Bratcher felt this was not the best idea of a value-added processor, but good for economic development.

Charles Miller made the motion to authorize staff to cooperate with Alltech and work out details, give the loan review committee authorization to make decisions on the loan and allow the committee to bring the decision back to the full board at a later date. Wayne Hunt seconded it. The motion passed without dissent.

## Fresh'N Ready Foods

A considerable amount of information has been exchanged and the loan committee has met in regards to the loan. There is a need for more comprehensive information and Mr. Hull has asked for more time to gather information.

Mr. Hurd commented that there appears to be a lot of holes still in the project. There would be a strong benefit in theory of the project, but we are lacking information to make a decision.

Mr. Miller explained that he agreed that there is a lot of info, but nothing solid.

Mr. Hughes responded that he has had a lot of correspondence since first talking to Mr. Hull, but not hard-core evidence. The balance sheet is incomplete and there are several discrepancies in the information gathered. Mr. Miller commented that this project has great potential, but doesn't have the structure at this point.

A motion was made by Sandy Ross and seconded by Doug Lawson for staff to take no action at this time. The motion passed without dissent.

## New Business

Current KAFC available fund balance: \$3,060,642.99 as of  
April 30, 2005

Less \$1,000,000 commitment to Alltech

LD Agriculture Loans Outstanding: \$5,867,301.87 as of April 30, 2005

### *Discussion and action on loan programs*

#### Producer Accelerated Payment Program (PAPP) (Handout)

The purpose of the program is to expedite payment to producers and growers. It often takes 45-60 days for payment to reach the producer. This causes hardships to current growers and deters potential growers from entering into the business

We are considering authorizing \$1,000,000.00 be set-aside for the next year.

The wholesale marketer is not limited to a co-op, but co-ops are the target.

The applicant is the entity and the loan is with the co-op. The money is

available only for grower payments.

Mr. Rogers stated that a check is made to the co-op not the producer.

The applicant is to provide a list of eligible growers and producers, but because of the nature of business, additions or deletions to the original list would be at the discretion of the executive director of GOAP.

Mr. Hunt asked about the reliability of the vendors/purchasers.

Mr. Snell explained that there are two blue book companies that check credit worthiness of produce purchasing companies. It costs approximately \$500-700 annually for the credit scores and if they are worthy to sell produce to, they are in the book. That is the check and balance to see if they are a good sell. As a good practice you want to sell to those who pay fast and are reliable.

Mr. Rogers noted that the structure of the accelerated payment program has the co-op being paid last.

Mr. Snell added that the co-ops do not have the ability to obtain loans for this money. They have four or five months that are extremely fast paced and the money has to be there to turn around. It is not recommended to loan the money more than a 90-120 day window.

Mr. Rogers remarked that a high accounts receivable and larger time period for expected payment only limits the amount they have access to later.

Mr. Snell said that the third party will possibly be the Kentucky Produce and Aquaculture Alliance (KPAA), but it is recommended that they be allowed to use another entity that may be closer or more available. The KAFC board would have the say in approving this entity.

Mr. Hurd asked what the dollar amounts needed were for each co-op.

Mr. Snell remarked that it is approximately \$250,000 for each of the co-ops and possibly \$100,000 to 150,000 for other entities such as Goodin View Farms.

Mr. Rogers stated that the short-term goal is to reach three to five different groups and we are limited with the amount of money in the current programs.

It will be easier for the administrator to overnight a check as opposed to wiring the money back to KAFC.

Mr. Lawson asked what would prevent the co-ops or other entities from cherry picking invoices and leaving us with the sticklers.

Mr. Snell commented that administrators would set up guidelines that the companies have to meet before they enter into an agreement.

Mr. Lawson asked why we would not collect interest throughout the year as opposed to only at the end.

Mr. Rogers remarked that it is simpler for staff and administrators to keep up with.

Mr. Lawson questioned if there is worry that the co-op can't come up with the cash at the end, once they have made it through the growing season.

Mr. Rogers explained that if the producer should end up with 60% that is all we would ever have to front. If a producer should end up with 85% we would still never go above 75%. If we come up and a co-op doesn't have the money we can roll it over into next years payment, or set them up on a loan schedule for payments.

Mr. Bratcher noted that keeping the 25% set aside until payment is made ensures the money will be coming around.

Mr. Rogers commented that we wanted the flexibility that is the easiest.

Mr. Hurd asked if the offering of security is available through the co-ops.

Mr. Rogers responded, no.

The motion to accept the Producer Accelerated Payment Program was made by Wayne Hunt and second by Annette Crawford Walters. The motion passed without dissent.

#### Agricultural Infrastructure Loan Program (AILP)

Mr. Hughes announced that there were some changes made to the program that differ from what was presented last month.

Mr. Farrow asked about funding for agritourism purposes

Mr. Hughes commented that it is not listed but can be considered. As an example a winery for a producer to process their own grapes could also be included, but not the equipment for processing.

Mr. Hunt asked if the program would look at overall funding or at individual components. If things are done on KADB side how will it tie together?

Mr. Hughes clarified that if we loan him \$50,000 to build a barn he can still get \$5,000 from the proposed model program to buy a baler.

Mr. Rogers explained that we couldn't loan more than 50% of the total project's cost.

Mr. Hunt requested to take out the 50% limit dealing with all funds originating from the ADB and KAFC, and change it to 75%.

A motion was made by Wayne Hunt and seconded by Billy Hurd to strike paragraph 6 under terms 'Total funds originating from Agricultural Development Fund and Kentucky Agricultural Finance Corporation can't exceed 50% of the project. Linked Deposit loans which originate from funds in the abandoned and unclaimed property account and are collateralized by the bank can be combined with this program and will not be reflected in the cap' and also strike from the application. The motion passed without dissent.

The applicant has to come up with 50% of the project either through other loans, grants, or cash.

It was recommended that a staff loan review committee be established in the office. The larger projects will rely on the KAFC loan committee for decision.

Motion to approve the program as amended was made by Wayne Hunt and seconded by Doug Lawson. The motion passed without dissent.

Charles Miller moved and Billy Hurd seconded that applications on the Agricultural Infrastructure Loan and Producer Accelerated Payment program be referred by staff. The motion passed without dissent.

#### Loan applications

Joe Moore-processing facility: Mr. Hughes recommended that Mr. Moore resubmit his application using the new AILP application.

Don Kinslow- dairy: Mr. Hughes presented an application from Mr. Don Kinslow for approval. Mr. Kinslow is requesting \$100,000 from KAFC to build a dairy freestall barn in Barren County. The loan will be in cooperation with Central Bank of Glasgow.

Mr. Hurd questioned what the 2.75% was for.

Mr. Rogers explained that it is an administrative fee. KAFC gets 2 % and the bank takes the .75%

Wayne Hunt moved and Billy Hurd seconded to accept the loan. The motion passed without dissent.

#### **Other Business**

No other business

**Adjournment**

The motion to adjourn was made by Billy Hurd and seconded by Doug Lawson. The motion passed without dissent.